Brent	**Cabinet** 24 July 2017 **Report from the Chief Finance Officer**
	Wards affected: ALL
Financial Forecast 2017/18	

1 Summary

1.1 This report sets out the current forecasts of income and expenditure against the revenue budget for 2017/18 and other key financial data.

1.2 Local government as whole faces significant financial challenges for the foreseeable future as a result of reductions in central government funding and demographic changes, such as an aging population. The recent general election result, and its likely policy consequences (discussed in greater detail on the other report on this agenda) adds to the level of financial uncertainty, and it is therefore essential that the council is able to enter this potentially turbulent period on a sound financial footing; and the data in this report demonstrates that this is the case.

1.3 In order to be able to deliver a balanced budget, and spend within its means, the council has put considerable effort into developing a realistic budget that addresses these challenges, and developing a culture of strong financial control, so that areas at risk of overspend are addressed and solutions put in place. As a result of this work, the current forecast is that the 2017/18 general fund net revenue budget is on target, as is the Housing Revenue Account (HRA). The Dedicated Schools Grant (DSG) is forecast to underspend due to factors explained below.

1.4 This balanced outturn forecast does not mean that the council can afford to be complacent, there are still notable risks, which are discussed below, and there is extensive work necessary to deliver the savings on procurement and income generation through the civic enterprise strategy.

1.5 The forecasts in this report are predicated on the assumption that the various adjustments within the budget proposed by way of the 'July Finance Review' report are agreed. This includes plans to adjust budgets where structural overspends occurred in 2016/17, meaning that these overspends should not recur in 2017/18, as departments will have credible and realistic budgets to deliver their service with.

1.6 Table one summarises the overall position. The report then sets out more detail on a department by department basis.

Table One: Overall revenue financial position 2017/18
Net revenue spend is forecast to be contained within the agreed budget

Department	Budget as per July Finance Review	Forecast spend	Variance
	£m	£m	£m
Children & Young People	40.6	40.6	0
Community Wellbeing	123.8	123.8	0
Regeneration & Environment	30.4	30.9	0.5
Resources	29.9	29.9	0
PPP	10.1	10.1	0
Central Items	(234.8)	(234.3)	(0.5)
Total (General fund)	**0**	**0**	**0**
DSG funded activity	0	(0.4)	(0.4)
HRA funded activity	4.0	4.0	0
Overall position	**4.0**	**4.0**	**(0.4)**

1.7 The Capital Programme is currently forecast to underspend by £29.1m, principally on projects reporting to the Housing Care Investment Board, but with underspends also on Public Realm Board and the Regeneration Board as shown in table two, below. There are a variety of reasons for these underspends, which are detailed in section three, below.

Table Two: Overall capital programme position 2017/18
Net revenue spend is forecast to be contained within the agreed budget

	Budget	B/fwd* + Additions	Revised Budget	Forecast Outturn	Variance
	£m	£m	£m	£m	£m
Corporate Landlord	1.6	0.6	2.2	2.2	0.0
Housing Care Investment Board	153.8	(1.1)	152.7	126.8	(25.9)
Public Realm Board	14.0	8.7	22.7	20.8	(1.9)
Regeneration Board	7.1	1.6	8.7	7.4	(1.3)
Schools Programme Board	30.6	(0.1)	30.5	30.5	0.0
South Kilburn	11.2	0.3	11.5	11.5	0.0
Grand Total	**218.3**	**10.0**	**228.3**	**199.2**	**(29.1)**

*as per draft statement of accounts

2 Recommendation

2.1 To note the overall financial position and the actions being taken to manage the issues arising.

3 Detail

Children and Young People (General Fund)

3.1 The Children and Young People department forecasts spending within its agreed budget. This compares to a £2.3m overspend in 2016/17. In 2017/18, structural budget issues have been addressed and management have committed to a series of actions in order to limit expenditure to the budget.

3.2 The General Fund forecast of a zero variance is reliant upon the Looked After Children (LAC) and Care Leavers placement mix and overall numbers remaining relatively constant, and the delivery of agreed savings and budget control actions within the year.

3.3 Despite low LAC numbers at the outset of the year of 313, compared to an average of 344 in 2016/17, numbers have now risen slightly to 319 in May, which is within the outlined strategy for 2017/18. The cohort continues to include a high proportion of older children with 131 aged 16 and over, and 24% are unaccompanied asylum seekers. The placements budget does however remain challenging as it also includes the cost of supporting a proportion of the increased number of care leavers. Currently there are 68 care leavers in financially supported placements. This could become a growing pressure due to the older age profile of LAC and legislative changes.

3.4 The overall caseload figures for social care include, for example, care leavers and those children on child protection plans, and were reported at 2,150 at the start of the year. A zero variance is forecast as increased resources have been made available compared to last year, and officers continue with the budget control actions committed to. These include improving the balance of in-house to external foster care placements during the year, which currently remains at 50:50. A target has been set to increase in-house carers by 5 during the year. Recent recruitment initiatives coincided with foster care fortnight, and increased foster carer approvals are expected.

3.5 The other main budget risk here is the delivery of the social work staffing restructure. Managers are seeking to optimise the social work staffing model within this and the Looked after children and permanency service, without compromising social work caseloads. The restructure is planned for mid-year 2017/18.

3.6 There is also the challenge of continuing to reduce the reliance on agency social workers throughout 2017/18. In 2016/17 35% of social workers were agency, and the target during 2017/18 was get this down to 20%. The IR35 legislation and the targeted recruitment and retention strategy has had some early impact, reducing the percentage to 29%, and this progress needs to be sustained throughout 2017/18.

3.7 Elsewhere in the CYP General Fund the committed procurement savings and income targets must be met to avoid an adverse impact on the budget.

Community Well-Being (General Fund)

3.8 The Community Wellbeing department is forecasting to spend within the proposed budget as at the end of May 2017.

3.9 Demand for community based services has been static for the first 2 months the financial year at 1,790 Homecare service users and 700 Direct Payment service users. Residential placement and Supported Living placements have also remained largely static at 430 and 320 service users respectively.

3.10 The one area of concern relates to Nursing care placements. Nursing Care numbers have tended to fluctuate dramatically over the last six months fluctuating by +/- 10 placements per month. Early trends show a 4.7% increase in placement numbers from 1st April 2017 (338) to the 1st June 2017 (354). It is too early to tell if this a true indication of a long-term trend for increased demand or just represents a more than typical fluctuation at a point in time seen. Contextually, budgeted growth for Adult Social Care assumed a 2.6% increase over the entire year.

3.11 The NAIL programme remains the most challenging savings target. A one off increase to the budget of £2.4m is proposed in 2017/18 due to delays in the private market delivering the New Accommodation for Independent Living (NAIL). The overall NAIL savings will still be delivered, but later in the programme life. The NAIL programme is due to deliver 251 new NAIL units throughout 2017/18. The current forecast shows that this revised plan is on track and 130 of these units will be delivered by the end of September 2017.

3.12 There are emerging risk associated to the continuation of the Housing Association Lease Scheme (HALS) for Temporary Accommodation (TA). HALS are seen to be a one of the cheaper TA schemes and currently make up 51% of TA usage (1370 families of the 2687). On average HALS schemes cost £12 per week compared to an average of £60 per week across the other types of TA scheme, so any changes will have a significant impact on the budget and planned savings in this area. No exits from the market have been confirmed, but a number of providers have informed the council that they are reviewing their HALS schemes as they are no longer financially viable.

Regeneration & Environment

3.13 Taking into account the proposed budget virements, Regeneration and Environment is forecasting a budget overspend of £0.5m. The department's current budget pressures/risks are as set out below.

3.14 The contract to implement LED Lanterns in street lights was delayed last financial year due to technical procurement problems and legal challenges from unsuccessful bidders. This has created a budget pressure of approximately £0.5m in the service area against agreed savings of £0.75m from street lights being more energy efficient.

3.15 Veolia seeks relief from a contract target to reduce waste disposal levels to within a stated contractual level. The legal position is complex and appropriate discussions are ongoing. In essence the council's position is that approximately £1.4m of the annual waste treatment bill is properly due to the contractor under the terms of the contract, as some performance targets have not been met. The contractor has sought relief from this, and legal discussions are ongoing under the contract's agreed dispute resolution terms.

3.16 The Brent Transport Service 3 year joint passenger transport inter-authority agreement (IAA) model with Harrow went live September 2016. While operationally the merged service has so far proved capable of delivering a collective transport solution, rising costs during the first 10 months have become an area of growing concern. The latest forecast presented to Brent is a net overspend of £0.43m driven by increase demand and minimum wage increase.

3.17 At this stage, excluding the street lighting pressure, the department is confident that risks can be managed by generating one-off underspends in other service areas to remain within the overall budget. A plan will need to be developed to address this remaining pressure over the summer.

Resources & PPP

3.18 Resources and PPP are forecasting a breakeven position against their 2017/18 budgets. However, there are known risks within the Customer Services budget in relation to the timing of the planned restructure and income generation within the Registrars and Nationality service.

3.19 Further work is being done to develop proposals designed to achieve £1m (10% of the current net budget) of agreed savings between 2017/18 and 2018/19, including running a number of pilot schemes and other digital initiatives designed to reduce staffing costs. The timing and phasing of the restructure, including allowing for the necessary consultation period, may put pressure on the budget to deliver its planned savings in 2017/18.

3.20 Registrars and Nationality had their income target set when it was at a relatively high level, but this year actual income generated has reduced as a result of recent changes in government policy. In order to mitigate this shortfall a number of new initiatives are planned to significantly increase income from a number of discretionary services. While it is currently forecast that the additional income raised should bridge the current income gap, there is a risk that should this income not be as expected the budget may overspend if costs cannot be reduced quickly enough to balance the overall budget.

Central items - Collection Fund

3.21 Even if planned devolution of business rates does not proceed as previously envisaged the declining share of total council income made up by central government grants makes it increasingly important that the council monitors and maximises available income. The first key source of income is Council tax. In order to deliver the plans set out in the budget, the total council tax payable needs to grow to £136.2m in 2017/18. As at 31 May 2017 this amount (technically, the gross debit) is £133m. Given the continued rapid growth of residential property in the borough it is expected this target will be met, but if this growth slows appreciably, and by the time of the quarter two report, the amount payable is not close to £136.2m, the council will need to adjust its budget for future years and may face an in year shortfall.

3.22 The council does not collect 100% of its council tax, so the other key element is the collection rate. The budget set a cumulative target collection rate for May of 21.3%, and 21.7% had been collected, so this is ahead of target for the year.

3.23 The other key source of income in the collection fund is business rates. The council budgeted for total business rates payable of £133.2m. This figure is currently £133m, and is expected to grow slightly in year, so the council is on target. This income is vulnerable to economic conditions, and would be at risk if the economic climate were to worsen. If income were significantly below budget the council would need to change its financial plans for future years.

3.24 As with council tax, the actual collection rate is important in determining how much money the council ultimately collects, at the end of May, the council's target was to have collected 19.2% of business rates, and only 18.9% was collected. The underperformance shown is thought to be due to timing differences in payments made by major ratepayers, and in recognising some of the income. Therefore at this point there it is forecast that the council's collection rate will return to target, but this needs to be monitored throughout the year.

Central items - Corporate Savings targets

3.25 The Council set challenging procurement savings between 2017/18 and 2018/19 of £3.5m and £4.5m respectively, predicated on saving 10% on a range of existing contracts. Realising these savings in 2017/18 has been challenging and has got off to a slow start where £1.5m or 44% of planned savings have been achieved so far. This shortfall is largely due to the re-letting of contracts where no savings were able to be negotiated and where contracts have yet to be re-let.

3.26 In order to address this risk, compensating savings of £1.9m have been identified to offset the shortfall in procurement savings in 2017/18. These savings are factored into the above forecasts. However, delivering these savings will require extensive effort across the council to identify how costs can be cut, and failure to deliver these savings will put the balanced budget at risk.

3.27 The Civic Enterprise savings of £5.6m were agreed between 2017/18 and 2018/19. Within this £2.5m relates to fees and charges underpinned by comparing Brent to neighbouring authorities in order to bring charges in line including for services that were previously free, with £1.25m in each year. So far this year 50% or £0.6m has been achieved. There remains a gap of £0.6m from the original target with further proposals being developed by service areas that will be reported to the Civic Enterprise Board and when appropriate bring to Cabinet to agree. Developing and delivering these proposals will need imagination to identify new opportunities for the council and drive to realise the income, which is why this is an area being prioritised as part of Brent 2020.

3.28 Overall, it is recognised that the Council has got off to a slow start in 2017/18 in the delivery of Procurement and Civic Enterprise savings. Nonetheless, in relation to procurement, the additional savings proposed will compensate for the shortfall to the extent that central contingencies will not need to be drawn upon. However, it should be noted that despite implementing reasonable contingency plans in 2017/18, there are still savings for 2018/19 that need to be delivered and therefore given the experience of 2017/18 further scrutiny will need placed on each procurement decision.

Central items - Capital financing and other central items

3.29 Historically, Capital financing has underspent due to delayed delivery of the capital programme. At the moment, this budget is forecast to underspend by £0.5m, reflecting the small underspend in the capital programme referred to above. In addition, corporate debt collection targets are forecasts to be exceeded, offsetting the departmental overspend referred to above.

3.30 Other areas of central items are expected to be on budget in 2017/18

Dedicated Schools Grant

3.31 The Dedicated Schools Grant (DSG) expenditure and income budgets for Brent total £313m before recoupment of funds by the Department for Education to fund the borough’s Academies. This figure therefore represents the total cost of funding education to early years and school age pupils in the borough.

3.32 There are known DSG underspends on the school budget share budget and school growth allocation forecasts. The Floreat free school was included in the mainstream funding formula budget, but the opening of this school has been delayed until September 2019, causing an underspend of £0.1m. The rate of growth in Primary school numbers has slowed, and an underspend against the rising rolls contingency budget of £0.3m is anticipated.

3.33 The Early Years block of the DSG was rebalanced for 2017/18 and is forecast to break even. However in September providers will start to provide 30 rather than 15 hours of free childcare to working parents, so the impact of this against the planned budget will be updated once participation rates are known. Increases in SEN provision are expected to increase spend in the High Needs block compared to last year and no underspend is forecast at this stage.

Housing Revenue Account

3.34 Overall the HRA is forecasting to spend within the proposed budget as at the end of May 2017.

3.35 A number of small variances have been identified as would be expected against a budget with gross expenditure of £53m. These relate to repair led pressures due to increased demand for both Gas and Lift servicing and repair, and the additional cost of recruiting two fire safety officers. It is envisaged that these costs would be offset against other underspends within the HRA.

Capital - Overall

3.36 While 2016/17 was taken up with the development and planning of its Investment strategy, 2017/8 will be focused on its delivery.

3.37 The Investment strategy linking capital spend to corporate objectives around affordable housing and social care accommodation was signed off in April 2016. A wholly owned investment vehicle – I4B Holdings Ltd – was established late in 2016, which was another key milestone in turning the investment strategy into reality. The council is involved in negotiations over joint venture arrangements in Wembley and South Kilburn and it is actively exploring other opportunities.

3.38 The first two tranches of Private Rented Sector (PRS) spend, totaling £50m, have been approved towards purchasing 150 properties and it is anticipated that this should be delivered by the end of Quarter 3 2017. The overall agreed in principle is for £100m for 300 properties but by splitting it into tranches, Cabinet is able to review progress and performance. The next planned request for £50m is expected to go to August Cabinet.

3.39 Over £100m has already been approved in relation to NAIL (New Accommodation for Independent Living) but these are approved on a scheme by scheme basis. These 351 units (out of a planned 415 units) should contribute to the Council's existing savings targets (£6.1m out of £7.2m required savings over the next three years, with more to come by this and other means).

3.40 The Capital programme as a whole has a 2017/18 budget of £228m, £218m of which was approved at full Council in March, two-thirds of which relates to Housing. The Forecast Outturn is currently £199m or 87% of target. It is forecast to underspend by £29m.

Capital - Housing Care Investment Board

3.41 Overall, the largest Board expects to deliver £127m out of £153m with PRS (I4B Holdings Ltd), HRA Acquisitions and NAIL refurbishment schemes are on track to deliver to budget. Originally, the purchasing cycle took up-to 6 months to purchase properties. However, improved processes have reduced this to 4 months with a target of 3 months (with the exception of existing tenanted properties). Recent improvements have included weekly buying reports, performance management reports on the purchasing cycle, Right to Buy tracker and streamlining of conveyancing and purchase approvals.

3.42 Development schemes are currently predicted to underspend by £11m. Infill schemes tend to be challenging due to their small sizes and complexity and are expected to deliver £12m out of £23m. There was a loss of units due to the scale of some schemes being reduced through the planning process, and there were also delays through planning processes, leading to the construction stage now expected to straddle 2017/18 and 2018/19. The Infill programme is now being reviewed to see by how much the budget needs to be reduced. In-house Property-delivered schemes (Church End, Knowles House, London Road) are forecast to only deliver £6m out of £21m, due to over-programming.

3.43 It is expected that some of this underspend will be counter-balanced by PRS, which appears set to over-deliver based on current progress. However, it is too early to forecast this at present.

Capital - Other Boards

3.44 There are risks in two of the school builds (Uxendon and Stonebridge). This is relation to a delay in award of the stage 2 contract by 1 month while these costs are reviewed by the programme team and a value engineering exercise undertaken. This is being closely monitored but so far the project managers feel that the budget can be delivered.

3.45 There is an 18 month delay on Street-lighting. Delivery was originally optimistically expected to be completed within 2016/17 but due to procurement delays, it will only start on site in August 2017. The contracted price is also expected to cost less than the budget, generating an in-year underspend of £1.9m. Options are being examined to speed up delivery as there is a £0.7m 2-year total revenue knock-on impact from savings non-delivery. Other than Street-lighting, Public Realm Board is expected to spend to budget.

Conclusion

3.46 Currently, the forecast shows that the financial position for the council in 2017/18 is on target, with underspends on DSG and capital, and no structural issues causing forecast overspends in 2017/18. There are some risks identified that could develop into structural issues if the council is unsuccessful at addressing them. In particular, changes in the temporary accommodation market could significantly increase costs, and action needs to be taken now to ensure that the Procurement and Civic Enterprise savings for 2018/19 are delivered. Subject to these plans being delivered, no new major cost pressures emerging, and the savings agreed by full council being delivered, the council should spend within its budget in 2017/18.

4 Financial Implications

4.1 This report is about the council's financial position in 2017/18, but there are no direct financial implications in agreeing the report.

5 Legal Implications

5.1 Managing public money responsibly is a key legal duty, but there are no direct legal implications in agreeing the report.

6 Equality Implications

6.1 There are no direct equality implications in agreeing the report.

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